

STATE OF MICHIGAN  
CIRCUIT COURT FOR THE 30<sup>TH</sup> JUDICIAL CIRCUIT  
INGHAM COUNTY

LINDA A. WATTERS, COMMISSIONER,  
OFFICE OF FINANCIAL AND INSURANCE SERVICES  
FOR THE STATE OF MICHIGAN,

Petitioner,

v

File No. 03-879-PR

COMMUNITY CHOICE MICHIGAN  
a Michigan health maintenance organization

Hon. James R. Giddings

Respondent.

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**ORDER APPROVING THE REHABILITATION PLAN  
FOR COMMUNITY CHOICE MICHIGAN AND  
CONTINGENT ORDER OF TERMINATION OF  
THE REHABILITATION OF COMMUNITY CHOICE MICHIGAN**

At a session of said Court  
held in the Circuit Courtroom  
for the County of Ingham,  
State of Michigan, on the  
23rd day of July, 2004

PRESENT: HONORABLE JAMES R. GIDDINGS  
Circuit Judge

Findings

After careful and deliberate review and consideration of the Rehabilitation Plan for Community Choice Michigan, a copy of which is attached to this Order, oral argument of the Deputy Rehabilitators, and the fact that no objections were filed to the Rehabilitation Plan, the Court finds:

1. This matter is before the Court on the Rehabilitator's Petition for Approval of the Rehabilitation Plan for Community Choice Michigan.

2. This Court approved the format of the Notice of Hearing for the approval of the rehabilitation plan by Order entered June 1, 2004.

3. The Notice of Hearing on Rehabilitator's Petition to Approve Rehabilitation Plan, attached to the Court's Order, initially set a hearing of June 17, 2004. That date was changed to July 1, 2004 upon approval of this Court, and notice with the July 1, 2004 date was sent to all contracted providers with Community Choice Michigan who provide services to Community Choice Michigan's members. A copy of the Notice of Hearing on Rehabilitator's Petition to Approve Rehabilitation Plan, as provided to the parties, is attached as Exhibit A. There were in excess of 3,000 such providers who were given a copy of the Notice of Hearing on Rehabilitator's Petition to Approve Rehabilitation Plan, with a copy of the rehabilitation plan. A copy of the Rehabilitation Plan is attached as Exhibit B. On the Court's own motion, the July 1, 2004 hearing date was changed to July 23, 2004. The Court notified counsel for the Rehabilitator on the morning of July 1 of the need to change the date of the hearing. The hearing had been scheduled during the afternoon of July 1. Notice to providers was not provided. No provider appeared on July 1, 2004.

4. Objections to the rehabilitation plan were due on or before June 25, 2004. No objections to the plan were filed.

5. This matter began with the Court's Order of May 12, 2003, which placed Community Choice Michigan into rehabilitation pursuant to Chapter 81 of the Michigan Insurance Code of 1956, as amended.

6. Since May 12, 2003, Community Choice Michigan has made significant progress. Significant changes in CCM's management and operations have resulted in positive financial operating results. A new management company, CareSource Management Group, assumed responsibility for the management of CCM on August 1, 2003. CareSource provided a discounted management fee yielding an annual savings of approximately \$2.4 million. In addition, CareSource also changed CCM's pharmacy benefits manager to Express Scripts and instituted a new drug formulary, saving approximately \$2.4 million per year.

7. In addition to the above-referenced savings, a comprehensive analysis of hospital contract performance was undertaken, and it was found that many hospital contracts needed to be adjusted to align with the Medicaid fee schedule. Negotiations were conducted with the hospitals, some of which made voluntary contract concessions. Other hospitals terminated contracts with reimbursement rates reverting to the state Medicaid fee schedule. The combined savings from the new and terminated contracts is projected to be \$3.2 million annually. With other operational and financial interventions, surpluses are projected of \$6.2 million in calendar year 2004, \$5.6 million in calendar year 2005, and \$3.9 million in calendar year 2006.

8. Community Choice Michigan has recently rebid its Medicaid contract for the 2004-2007 contract period and was successful in 38 out of the proposed 39 counties in which it chose to bid.

9. Community Choice Michigan has applied for a 90% loan guarantee through the Health Resources Services Administration (HRSA), Bureau of Primary Health Care with the United States Health and Human Services Department. This program is designed for a managed care plan sponsored by federally qualified health centers under whose auspices CCM was initially created. The proceeds of this loan, if obtained, will be treated as a subordinated note,

with repayment of the principal and interest at the discretion of the OFIS Commissioner. This arrangement will enable CCM to treat the debt as surplus for statutory reporting purposes, thus increasing the plan's statutory reserves and allowing CCM to meet the Michigan Department of Community Health's requirement that it demonstrate 200% of risk based capital. A pre-condition of this loan is that this rehabilitation proceeding be terminated. However, at this time, without the loan, CCM would not be in a position to emerge from rehabilitation. Accordingly, it is appropriate that termination of the rehabilitation be ordered, contingent upon the consummation of all transactions contemplated by the loan guarantee commitment issued by HRSA and the loan commitment issued by Fifth Third Bank at which time the loan shall be funded.

10. Since being placed into rehabilitation, Community Choice Michigan has significantly improved its financial condition. As of March 31, 2004, it had total net assets of \$2,267,742 (\$1,914,293 of statutory capital and surplus). Upon receipt of the HRSA guaranteed loan, CCM will have total net assets and surplus notes in excess of \$12 million.

11. All creditors claims, except the claims of the federally qualified health centers who originally formed Community Choice Michigan, are current.

12. After careful and deliberate consideration of the provisions of the rehabilitation plan for Community Choice Michigan, the public interest, and attendant with maintaining the continuity of health care services for CCM members, the Court finds pursuant to MCL 500.8114(4) that the rehabilitation plan of Community Choice Michigan, attached to this Order, is fair and equitable to all parties concerned.

## ORDER

At a session of said Court  
held in the Circuit Courtrooms  
for the County of Ingham  
State of Michigan, on the  
23rd day of July, 2004

PRESENT: HONORABLE JAMES R. GIDDINGS  
Circuit Judge

For the reasons stated herein, and on the record,

IT IS HEREBY ORDERED that:

1. The rehabilitation plan of Community Choice Michigan is approved pursuant to MCL 500.8114(4) because it is fair and equitable to all parties concerned.
2. The Rehabilitator shall take such actions as are necessary and appropriate to implement the rehabilitation plan including, but not limited to, the following:
  - a. elimination of capitation for primary care services for the remaining capitated providers effective July 1, 2004;
  - b. elimination of the current contractual risk arrangements for PCPs and PHOs effective August 1, 2003 and replacement with a consistent and simplified model as described in the plan;
  - c. standardization of PCP's reimbursement at 100% of the Michigan Medicaid fee schedule with a 10% withhold retained as PCP risk, effective July 1, 2004; and
  - d. Community Choice Michigan must pursue and comply with all requirements to obtain and fund the HRSA loan guarantee.
3. That upon the consummation of all transactions contemplated by the loan guarantee commitment issued by HRSA and the loan commitment issued by Fifth Third Bank

and the funding of the HRSA guaranteed loan, this rehabilitation proceeding of Community Choice Michigan shall be terminated and all aspects of the rehabilitation plan shall be fully implemented. The Rehabilitator shall advise the Court when the loan is funded.

JAMES R. GIDDINGS

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Circuit Judge

cases/2003/scherbarth/CCM/pldgs/Order Approving Rehabilitation Plan